National Currency Reform Association
Currency and the foreign trade.

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TRACT, No. VI.

CURRENCY AND THE FOREIGN TRADE.

"THE commerce of one country with another is, in fact, merely an extension of that division of labour by which so many benefits are conferred upon the human race. As the same country is rendered the richer by the trade of one province with another; as its labour becomes thus infinitely more divided, and more productive than it could otherwise have been; and as the mutual supply to each of all the accommodations which one province has and another wants, multiplies the accommodations of the whole, and the country becomes thus, in a wonderful degree, more opulent and happy, the same beautiful train of consequences is observable in the world at large, that great empire, of which the different kingdoms and tribes of men may be regarded as provinces. In this magnificent empire, too, one province is favourable to the production of one species of accommodation, and another province to another. By their mutual intercourse, they are enabled to sort and distribute their labour as most peculiarly suits the genius of each particular spot. The labour of the human race thus becomes much more productive, and every species of accommodation is afforded in much greater abundance."*

The doctrine enunciated in this eloquent passage, perfectly sound in the abstract, is calculated to mislead those who separate the question of TRADE from the questions of CURRENCY and TAXATION. Fiscality apart, the different provinces which constitute an independent country may properly be compared to the different kingdoms which constitute "that great empire, the world at

* *Commerce Defended.* By James Mill. London: C. and R. Baldwin. 1808.

large;" but when fiscality is taken into view, the comparison fails. The different provinces of an independent country are subject to the same scale of taxation; but this is not true of the different kingdoms of the earth. The national debt of Great Britain is equal to all the national debts of continental Europe.

Mr. Mill truly observes, that "the commerce of one country with another" is merely an extension of the division of labour; and that it enables different nations, by their mutual intercourse, "to sort and distribute their labour as most peculiarly suits the genius of each particular spot." From this statement we infer, that it is sound policy to receive from foreigners such commodities as we require, but the production of which our soil and climate forbids; and, further, that it is unwise to import such articles as native industry can supply in sufficient quantities, since this would not be an extension of the *division* of labour, but the displacement of British by foreign labour.

In another passage, in the same pamphlet from which we have already quoted, Mr. Mill makes the following remarks, which fully justify the distinction which we have pointed out:—

"Foreign commerce is in all cases a matter of expediency rather than of necessity. The intention of it is not to furnish a vent for the produce of the industry of the country because that industry always furnishes a vent for itself. The intention of it is, to exchange a part of our own commodities for a part of the commodities which we prefer to our own of some other nation; to exchange a set of commodities which it peculiarly suits our country to produce, for a set of commodities which it peculiarly suits that other country to produce."

Mr. Mill's searching and comprehensive intellect is so superior to the collective wisdom that now dominates in Parliament, that we cannot better serve the objects of this Association than by citing more copiously from his admirable reasoning. His only defect was, in overlooking the true nature and functions of money; and this defect we shall presently point out from his own words. Mr. Mill expresses his general doctrine in the following terms:—

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"The production of commodities creates, and is the one and universal cause which creates, a market for the commodities produced. Let us but consider what is meant by a market. Is anything else understood by it than that something is ready to be exchanged for the commodity which we would dispose of? When goods are carried to market, what is wanted is somebody to buy. But, to buy, one must have wherewithal to pay. It is obviously, therefore, the collective means of payment which exist in the whole nation, that constitute the entire market of the nation. But wherein consist the collective means of payment of the whole nation? Do they not consist in its annual produce—in the annual revenue of the general mass of its inhabitants? But if a nation's power of purchasing is exactly measured by its annual produce, as it undoubtedly is, the more you increase the annual produce, the more, by that very act, you extend the national market—the power of purchasing, and the actual purchases, of the nation. Whatever be the additional quantity of goods, therefore, which is at any time created in any country, an additional power of purchasing, exactly equivalent, is at the same instant created; so that a nation can never be naturally overstocked, either with capital or commodities, *as the very operation of capital makes a vent for its produce.*"

This reasoning is enforced in a subsequent passage; and the argument confirms the previous citation, which asserts, that "foreign commerce is, in all cases, a matter of expediency rather than of necessity." Why? Because, as Mr. Mill observes, "it shews, that a nation always has within itself a market equal to all the commodities of which it can possibly have to dispose; that its power of purchasing is always equivalent to its power of producing, or at least to its actual produce; and as it never can be greater, so it never can be less."

This argument also demonstrates the fallacy of over-production; since it is plain that one-half of the goods of a country universally form the market for the other half. It is, however, possible, that the balance between supply and demand, *in reference to a single commodity*, may be disturbed; but this can never happen in reference to commodities in general.

"The quantity of any one commodity," says Mr. Mill,

"may easily be carried beyond its due proportion; but, by that very circumstance, is implied, that some other commodity is not provided in sufficient proportion. What, indeed, is meant by a commodity's exceeding the market? Is it not that there is a portion of it for which there is nothing that can be had in exchange? But of those other things, then, the proportion is too small. A part of the means of production, which had been applied to the preparation of this superabundant commodity, should have been applied to the preparation of those other commodities, till the balance between them had been established. Whenever this balance is properly preserved, there can be no superfluity of commodities—none for which a market will not be ready."

This reasoning is perfectly sound in the abstract, and the conclusions to which it leads would be realised in practice, if all commodities were exchanged by barter; and all taxes, rents, tithes, rates, and other public and private obligations, were paid in kind; but both the reasoning and the practice is falsified when the legal tender of a country consists of metallic money fixed in price. It is marvellous that the keen penetration of Mr. Mill overlooked this intrusive element, which completely vitiates his argument; and this will appear the more remarkable to the reader, after he has perused the next extract.

"*When money*,"* says Mr. Mill, "*is laid out of the question*, is it not in reality the different commodities of the country? that is to say, the different articles of the annual produce, which are annually exchanged against one another? Whether these commodities are in great quantities or in small—that is to say, whether the country is rich or poor, will not one-half of them always balance the other half? and is it not the BARTER of one-half of them with the other which actually constitutes the annual purchases and sales of the country?"

It is perfectly true, that when "money is laid out of the question," all the consequences stated by Mr. Mill must occur; the markets of the country can never be overstocked; no case can arise of over-production, or of over-trading; there can be neither scarcities nor gluts;

* It is hardly necessary to observe, that Mr. Mill refers solely to *metallic* money.

supply and demand will always be proportionate to each other. Is any other evidence required to impress on the public the paramount importance of profoundly studying the nature and action of money? All experience tells us, that the advantages of the industrial system described by Mr. Mill, have never been realised; yet he demonstrates that they could not fail to be realised, if all exchanges were effected by barter; but currency is the substitute for barter, an instrument designed to *facilitate*, not *obstruct* exchanges—the means to the end. Hence it follows, that if the end is not attained, the mischief must be wholly ascribed to defects in the monetary system; yet this has been entirely overlooked by the very distinguished philosopher from whose answer to Mr. Spence we have so largely quoted.

In our tract on "*Currency and the Home Trade*," it was contended, that in our dealings among ourselves, the productive classes are entitled to taxation-prices; while, in our dealings with foreigners, we are compelled to buy and sell at barter prices, expressed in untaxed gold. It is evident that these two kinds of prices cannot be expressed in one and the same currency; two kinds of currency, therefore, are required, the one for the operations of the Home Trade, the other for the operations of the Foreign Trade. It is the violation of this fundamental principle that has caused, and will continue to cause, till the present system is changed, those periodical prostrations of industry which have occurred in regular cycles since the resumption of cash payments in 1819.

The use of a double currency was well known to the people of antiquity. It was soon observed, that the precious metals did not increase proportionately with all other commodities; and the wisdom of ancient legislators perceived that production would be arrested if no other distributive instruments than gold and silver were employed. One of the earliest plans adopted to surmount the difficulty, was the creation of a national currency in each independent state for internal trade; and its distinctive characteristic was the total absence of intrinsic value, which effectually prevented its exportation. This invention greatly economised the use of the precious metals, allowing them to be wholly employed in dis-

charging the balances of foreign commerce. Thus the cities of BYZANTIUM and CLAZOMENÆ provided iron money for their own citizens, which circulated at home for the nominal value impressed upon it by public authority. The monetary laws of Lycurgus were founded on the same principle; but that great legislator deprived his money of all value as merchandise, by destroying the malleability of the iron of which it was composed. SENECA was of opinion that the SPARTANS also used leather money, having a stamp to shew by what authority it was issued. PLATO recommended a double currency in every STATE. "Coin," says Plato, "is for the purpose of daily exchange, which exchange it is almost a matter of necessity that artizans must make, and indeed all persons who need their services, and to pay wages to hired servants, slaves, and settlers; for which purpose we affirm there must be a coin having a *value* among the members of a state, but no *value* to the *rest of the world.*" For the purpose of visiting other states, military expeditions, and embassies, Plato proposed a common GREEK coin, of intrinsic value, which would pass current in all the STATES of GREECE. Xenophon observes, that "most of the cities of Greece have money, which is not current except in their own territory; hence merchants are obliged to barter their wares for other wares." These examples abundantly prove the early adoption of a double currency in the sense in which we have explained the term.

The people of modern Europe have entertained ideas on the nature of money very different from those held by the statesmen and legislators of antiquity. They have insisted that the very essence of money is intrinsic value, and resolved all wealth into the possession of gold and silver.

"In consequence of these popular notions," says Adam Smith, "all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver in their respective countries. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected it to a considerable duty.

The like prohibition seems anciently to have made a part of the policy of most other European nations. It is even to be found, where we should least of all expect it, in some old Scotch Acts of Parliament, which forbid, under heavy penalties, the carrying gold and silver *forth of the kingdom.* The like policy also took place both in France and England."

Although Adam Smith and David Hume have long since demonstrated the fallacy of these silly and pernicious prejudices, they still pervade the minds even of men in authority, and influence the decisions of Parliament. Chancellors of the Exchequer congratulate the country in proportion as our exports exceed our imports; and unless this cause of rejoicing is to be referred to the old doctrine of the BALANCE of TRADE, which taught that the excess was discharged in gold, it is extremely difficult to understand in what those felicitations originate. We must examine the soundness of this theory, so intimately connected with the operations of foreign commerce.

Common sense concludes that the aggregate of general commodities constitutes riches; and that riches accumulate when the incomings exceed the outgoings. If, in a given time, more water escapes from a tank than enters it, we have only to increase the time to empty the tank. But, if a merchant export produce worth, in his own country, £20,000, and import produce in exchange worth £25,000 in his own country, he justly considers that he has gained £5,000 by the operation. Now, as a nation is but an aggregation of individuals, it might be presumed that what is true of an individual must be true of a nation; but this conclusion is denied by the THEORY of the BALANCE of TRADE, which affirms that the excess of exports over imports contributes to the riches of a nation, and expresses the profits derived from foreign trade.

This doctrine was established when money and wealth were used as synonymous terms, and when the riches of a country were computed by the accumulation of bullion. In those days people reasoned thus:—If, in the course of a year, or any other given period, England sells to France goods worth £100,000, and France sells to

England goods worth only £90,000, this excess of £10,000 is remitted to England in bullion, and forms a *permanent* addition to English wealth. Now, assuming that this balance was always paid in the precious metals, it would not prove the slightest acquisition of gain, since it is clear that a full equivalent had been given for the bullion, as we exported goods worth £10,000 more than the value of the goods we imported. A nation, therefore, is not enriched a solitary farthing by such an operation as we have described. The error originated in the false assumption that riches consisted exclusively in gold and silver—no other commodity being accounted riches.

The theory involves another absurdity. It proceeds on the principle of accumulation: but, to render that principle sound, it should be shewn that bullion is *permanently detained* in the country into which it is imported. If a country add to the number of its houses, bridges, railways, or docks, these become enduring accessions to its REAL WEALTH; but the possession of bullion is transitory. It is exported as merchandise whenever it is dearer abroad than at home; and when thus reappropriated to the purposes of trade, the country reverts to the very same position in which it stood previously to the receipt of the metallic balance.

The theory, then, is groundless: first, because it exhibits no mercantile balance of trade; secondly, because it is based on the false assumption that the precious metals alone constitute wealth, while it denies that wheat, coals, iron, and all other commodities are wealth, but affirms that they are merely subordinate instruments by which gold may be secured; thirdly, because it implies that imported bullion may be detained as a permanent deposit.

The theory has led to a mischievous abuse of the word "Capital." When the commodity gold leaves the country to purchase the commodity wheat, we are told, by the bullionist school of economists, that we have become poorer, because we have parted with our *capital;* but surely we have received an equivalent for the gold in the wheat; and having merely *exchanged one capital for another*, our real riches have not undergone any real

diminution. We are congratulated on the briskness of trade, when we export large quantities of coal or iron, cotton or calico—how, then, does it happen that large exports of gold, for which we receive a full equivalent, are always attended with mercantile convulsion and an enormous loss of property? Because we perpetrate the folly of making gold our legal tender in the home trade, and command that home trade to be suspended whenever the gold is exported. If we really became poorer, as the bullionists contend, by such an operation, common sense would put industry to work to repair the loss without delay; but the bullionist remedy is to keep our operatives in idleness, as though we could recover our position by closing the factories, blowing out the furnaces, and bringing the steam-engine to repose. Under such circumstances we are compelled to sell our goods to the foreign holders of the gold at even fifty per cent. below the original cost of production, and then we are exhorted to boast of the extent of our foreign trade, and rejoice at the replenishment of the cellars of the Bank of England.

Before dismissing this mischievous fallacy of the balance of trade, we shall fortify our preceding argument by citing from two bullionist authorities; the first quotation shows that gold is a mere commodity, deriving all its value from the labour it embodies, and none whatever from its being impressed with the mint-mark; the second, that the payment of the excess of our exports over our imports in gold, is a sheer delusion.

"When British goods," says Mr. Mill, "sold abroad, are paid for in money, it is not the denomination of the foreign coin which the merchant regards, it is the quantity of gold and silver which it contains. It is its value as bullion merely that he estimates in the exchange; and it is in the form of bullion, not of foreign coin, that the gold and silver, when it is in gold and silver that he receives payment, is imported. The importation of gold and silver, therefore, differs in no respect from the importations of platinum, zinc, copper, or any other metal. A certain part of it being taken occasionally to be stamped as money, makes not an atom of difference between the cases."

"Had the apparent excess of exports over imports," observes Mr. M'Culloch, "as indicated by the Custom-House books for the last hundred years, been always paid in bullion, as the supporters of the old theory contend is the case, there ought at this moment to be about 450,000,000*l.* or 500,000,000*l.* of bullion in the country instead of 50,000,000*l.* or 60,000,000*l.*, which it is supposed to amount to."

Intimately connected with the theory of the BALANCE of TRADE, though proceeding on a different principle, is the doctrine of OFFICIAL and DECLARED VALUES, which has for a long time deluded parliament and the public. We will first explain the meaning of these terms, and then explain the statistical uses to which they are applied.

OFFICIAL VALUE, is a measure of *quantity*. It denotes the quantity of British produce and manufactures exported to foreign countries annually. It was established in 1694, and at that date the official rate corresponded with the real rate, that is to say with the prices in money realised by the exports. This correspondence no longer exists.

REAL VALUE. or, as it is also termed, DECLARED VALUE, denotes the current value in money which the merchants, who export goods, expect to realise on their sales. No accurate register of REAL VALUE has been recorded by the BOARD of TRADE prior to the year 1793; but the system arose at the breaking out of hostilities between this country and revolutionary France. At that time vessels of war were appointed by the Admiralty to convoy merchant vessels to their destination, and as the naval armament was proportioned to the risk incurred from capture by the enemy's cruisers, the merchants were required to *declare* the *real* value of their cargoes, and hence the rate received the twofold names of REAL and DECLARED VALUES. For statistical purposes, this practice has been continued to our times.

The use of the two rates is this. As the official indicates the quantity of produce exported, while the declared indicates the money value of that produce, the difference between the two shows the advancement or decline of prices that has taken place between any periods

that may be compared together. For instance, in the year ending the 5th of January, 1842, the official value of cotton manufactures exported was 58,816,522*l.*, while the real value put upon them by the exporters was only 16,225,566*l.* Now had the money value of goods paid to us by foreigners in 1841 been sustained throughout *that* year, according to the scale at which it was sustained in 1694, we should have received three and a half times as much money as we did receive; and not receiving that larger amount, it is plain that we gave the difference to the foreigner, whether that difference be computed in labour, money, or quantity of produce. In fact we gave to the foreigner three days and half a day's labour and skill in 1841, where our ancestors in 1694 only gave one day's labour. How far machinery and a diminution in the cost of the raw material has lowered prices, we shall presently inquire; but before doing so, we must exhibit the workings of the system on a broader scale.

	Official Value.	Declared Value.
1798	£ 27,922,001	£31,252,836
1845	150,879,986	60,111,082

From these returns it appears, that we sent to foreign countries in 1845 nearly six times as much of our produce as we sent in 1798; therefore, to have maintained our relative position, we ought to have received six times as much money. In 1798 we received from the foreigner, as it appears from the preceding table, 31,252,836*l.*, in payment of our exports; therefore, according to that scale, we ought to have received six times as much money in 1845, as we received in 1798, or in round numbers, 180,000,000*l.* But we only did receive 60,000,000*l.*, so that here we find a relative deficiency of 120,000,000*l.* in round numbers. This difference between what we did get, and what we ought to have got, measures the depreciation of prices within the two periods compared. If it be said that we have defeated ourselves by proving too much, we answer that the figures are not ours but those of the BOARD of TRADE; and WE have no right to assume that the BOARD fabricates and publishes false statistics. Sir Robert Peel, however, who has the advantage of being thoroughly versed in governmental mysteries, distrusts the accuracy of these

returns. In a speech which he delivered in the House of Commons, 6th July, 1849, in reply to Mr. D'Israeli, although his whole argument was based on the doctrine of official and declared values, he concluded by impugning their accuracy as a guide to judgment. "Let me observe," said Sir Robert, "that nothing can be more unsafe than any inference drawn from the returns which give the declared value of manufactures exported. Owing to the manner in which the accounts of exports and imports are prepared, arguments drawn from that source must be exceedingly fallacious."

It is a remarkable and significant fact, that up to 1819, the fatal year in which cash payments were resumed, the declared values always exceeded the official values; but from that year up to the present, the official values have always exceeded the declared values, thus indissolubly connecting the continued fall of prices with the return to metallic money. That fall has been at least fifty per cent, and in many instances considerably more; nor should we forget that the declared values are only such as the exporting merchant *expects* or *hopes* to realise; but in this he may be disappointed. Here we may quote the high authority of Mr. Cargill, the eminent iron master of Newcastle on Tyne, whose multiplied transactions are diffused over the globe.

"In 1840," says Mr. Cargill, "the official value, 107,714,060*l.*, was only worth 51,406,430*l.*, that is, England gave nearly three times as many goods for 51,000,000*l.* as she did in 1815. But in reality I have no hesitation in stating that the vast quantity of goods sent out in 1840 did not realise any thing like the value declared at the custom house. The greatest part was sent by manufacturers or merchants on *consignment*, and they gave in the value they *expected* to realise. I very much doubt if the country really received 30,000,000*l.* for what was declared at 51,000,000*l.* in 1840. The fall in price of manufactured articles may be measured by taking one great article, viz. iron. Bar iron 16*l.* per ton in 1825, and only so low as 7*l.* in the crisis ending 1832, actually reached 3*l.* 15*s.* in 1843! a price far lower than the cost of production ever was or can be."

At the period to which Mr. Cargill refers, immense

cargoes of every description of British produce were consigned to Australasia; they were not consigned to regular purchasers, but to auctioners and auction-brokers; they were to be sold for what they would fetch, even under cost price, to keep a series of accommodation bills afloat. The consequence was that all the established traders who dealt in similar goods, and had received their customary supplies shortly before, were ruined by this desperate competition, for the commodities were sold at the antipodes, freight and charges included, for lower rates than they would have commanded at the doors of the workshops and factories in which they had been prepared. In India and China the same destructive system has been pursued, so that we have carried out an enormous trade at an enormous loss. From this statement we may learn that the excess of official over declared values, so far from being the sign of prosperity, may indicate the ruin of industry; in corroboration of which view of the case, we beg to direct attention to the following statistics contained in a very able pamphlet recently published.*

"It appears that in 1815 the quantity of cotton exported to all parts of the world from Great Britain was at the rate of 1,392 yards for 100*l.*; but to America the quantity was 1,562 yards for 100*l.* In 1819, the quantity given for 100*l.* to America was 1,924 yards against 1,728 yards to all parts of the world. In 1825, the quantity exported to America shows, that the increased ratio was not so great compared with all other parts; yet still it has kept on increasing to the present time, till, in 1847, 4,573 yards were entered for 100*l.* value; being an increase since 1815 of 192 per cent; and to all parts of the world in 1846, 6,379 yards; being an increase of 358 per cent. Whatever may be the opinions of the power of British manufacturers respecting their ability to compete with the whole world, these figures show that at some period there must be a stop put to the career they are now running. For thirty-four years this process has been increasing from 20 to 30 per cent. In 1842, the year in which Sir Robert Peel's first free trade tariff was

* The State of the Nation. By Anglicanus. London, Hearne, Strand. 1849.

passed, the quantity of cotton goods exported for 100*l* exceeded that of 1841 by 50 per cent."

Some political economists are so infatuated as to affirm, that England is destined to become the workshop of the world, on account of her possessing coal and iron, as if the minerals and metals were confined to this country; and this delusion has been blindly followed by our manufacturers, as it is so grateful to their interests. Even legislation has been influenced by this *ignis fatuus.* The following facts, contained in a letter from Mr. Abbot Lawrence, American Ambassador at the Court of London, to Mr. Rives, American Ambassador at Paris, may teach sounder views on this subject:—

"According to a statement made up by Mr. P. T. Jackson and Mr. John A. Lowell, for the use of the Tariff Convention held in New York in 1832, the home consumption of cotton prior to the passage of the act of 1816, was 11,000,000 of pounds, being about three-eighths of the quantity now spun at Lowell.

"The quantity spun in Great Britain, in 1816, was 88,000,000 of pounds. There are no data to be relied upon for continuous returns of home consumption between 1816 and 1825-26.

"In 1826-27, the returns were made in a New York price current, and they have since been continued, and are deemed to be as correct as the nature of the case will admit.

"In 1826-27, the amount spun in the United States was 103,483 bales, which we may estimate at 336 pounds each (net of tare), equal to 34,149,390 pounds.

"In the same year, the quantity spun in Great Britain was 197,200,000 pounds. From 1828 to 1830 was a period of embarrassment and distress among manufacturers; consequently the consumption of 1829-30 was only 126,512 bales, of about 345 pounds each, amounting to 43,646,640 pounds; while the consumption in Great Britain was 247,600,000 pounds. At this period, some of our southern friends, who had been foremost in advocating home manufactures, and had counted largely on the benefits anticipated by them in 1816, from the operation of the protective policy (as greatly augmenting the consumption of their staple), began to manifest dissatisfaction with what they considered the slow progress of our cotton manufactures. The idea entertained, and put forth, was, that we should never require so much as to bear any considerable proportion to the consumption of Great

Britain. This, as will be shown, was a false view of the case, and has proved a capital error.

"In 1832-33, the quantity spun at home reached 194,412 bales, averaging perhaps 360 pounds each; in 1835-36, 236,733 bales; in 1837-38, 246,063 bales; in 1839-40, 295,193 bales; in 1841-42, there was deep commercial and manufacturing distress, and the consumption receded to 267,850 bales. In the latter part of the year 1842, and in 1843, after the present tariff-law went into operation, a revival of business throughout the country took place, and brought up the amount spun to 325,129 bales.

"In 1844-45 (year ending 31st August last), the amount spun was 389,006 bales. There is a quantity of cotton consumed in the interior of the States, which, never having reached the seaports, is not included in the New York statement, that has been estimated to be at least 41,000 bales; we shall therefore estimate the total quantity at 430,000 bales, of 410 pounds each, net, making a total of 176,300,000 pounds as the consumption last year, against 11,000,000 pounds in 1816—being a period of 29 years.

"The consumption in Great Britain has gone on steadily increasing, but not in so rapid a ratio as in the United States. The returns for 1845 have been received,* and amount to 560,000,900 pounds, against 176,300,000 pounds in the United States. Thus the increase in the United States from 1816 to 1845, has extended from 11,000,000 to 176,300,000 pounds in 29 years, being an augmentation of sixteenfold. The increase in Great Britain in the same period of time has been from 88,700,000 pounds to 560,000,000 pounds; being an augmentation of less than sevenfold, against an increase in the United States of sixteenfold.

"These are not only striking, but important facts, and present a view of the case which refutes the anticipations of those who entertained different opinions of the future increase in the spinning of cotton in this country fifteen years ago. I cannot but hope that the views and opinions of some of the

* Quantity of Yarns spun in Great Britain in 1845:—

494,000,000 pounds.		
Exported in yarns, 12d. 24cts.	134,500,000 lbs., valued at	$32,280,000
Exported in manufactures, 18⅔d. 36¼cts.	202,360,000 lbs., valued at	73,000,000
Consumed at home, 40cts.	158,000,000 lbs., valued at	63,200,000
	494,860,000	
Whole value of cotton manufactured in England,		$168,480,000

prominent men of the South may undergo a change, when they examine this question dispassionately; and that they will come to the conclusion, that they are deeply interested in the spinning, as well as in the producing of cotton, at home. As regards the future, if the general peace of the world be maintained, and the leading business-concerns of this country are not disturbed by the legislative action of the federal government, there is no reason why the increased home demand for cotton should not go on in as rapid a ratio as during the past. This would be doubling the present consumption in a little more than eight years.

"There are now an immense number of spindles under construction in a majority of the States (probably not less than 500,000), all of which are intended to be in operation before the 1st of January, 1850; and the probability is, that, at that time, the quantity of cotton spun will reach 650,000 bales, of 410 pounds each, or 266,500,000 pounds. There will, also, be a great increase in Great Britain, but not in the same proportion; as we possess some advantages in the manufacture of heavy goods, which are not enjoyed in England. So long as we produce better goods, and can maintain our superiority abroad, there will be a constantly increasing export demand; which is of great value to the whole country. Upon a review of this branch of industry, it appears to me that its future prospects are excellent, *if not disturbed by bad banking, and (what is still more pernicious to all branches of business) unstable and unwise legislation.*"

The bullionists have attributed the prodigious fall in prices to the reduced cost of raw cotton and improvements in machinery, completely keeping out of view the influence of metallic money. In 1815, the average price of raw cotton per lb was 20*d.*; in 1846 it was 6½*d.* In 1815 the price of cotton per yard was 17*d.*; in 1846 it had fallen to 3½*d.*, being a reduction of 80 per cent; but between 1815 and 1846, the increase of exported cotton to all parts of the world was 358 per cent for the same moneyed value. In 1815 we exported 252,884,029 yards of cotton, the declared value of which was 18,158,172*l*; but in 1846, we exported 1,065,460,589 yards of cotton, of which the declared value was only 16,901,632*l.** Now, while making every due allowance for the decline in the

* We have taken these figures from the pamphlet by Anglicanus, already quoted; and they who desire more detailed information, may consult it with advantage.

cost of raw cotton, no one can ascribe to this cause alone the tremendous fall in prices we have indicated. The bullionists, however, have two strings to their bow, and attribute the fall to the wondrous powers of machinery acting in conjunction with a reduction in the cost of the raw material. Far be it from us to underrate the gigantic influences of the steam-engine, the spinning jenny, or the power loom; but the fact remains that amongst the elements of cheapness we must include the fall of wages, prolonged hours of labour, and the employment of women and children in factories; and what is still more noticeable, while we boast of our ability to clothe the whole world, we are unable to clothe the people of our own land. How happens it then that the full benefits of machinery and of cheapened raw material, instead of being given to the foreigner, are not secured to our own mechanics and artisans? Why should we improve the condition of other nations, while so far from elevating, we are actually degrading, our own social condition? In aiming at the indefinite extension of the foreign trade, is it wise to narrow the boundaries of the home trade, by depriving the great body of the working classes, through cheap wages, of the power of consumption?

The action of foreign trade in all countries is very remarkable. The serfs of Poland and Russia grow the finest wheat to be exported to England, but live on the coarsest bread. The cultivators of the vineyarda on the banks of the Gironde, the Douro, and the Rhine never taste their fine wines, which are sent to the foreigner. Ireland ships its corn and pork to Britain, while the tillers of the soil vegetate on the meanest dietary. The looms of Yorkshire and Lancashire clothe the Chinese and the Hindoo, while the bulk of the English people are in rags or insufficiently clad. These interchanges indeed specially minister to the comforts and luxuries of the rich in all countries, but they rarely reach the poor, whose hard fate it is to labour for others not for themselves, to create wealth, not to enjoy it. Were the home market properly regulated through an expansive moneyed instrument of distribution, every man, woman, and child would be able to command possession of all such commodities of native produce as were needful to the rational enjoyment of

existence; and after they were fully supplied, the excess would be transmitted to a foreign market in exchange for such articles as we might desire, but which our soil and climate could not produce. But metallic money forbids these desirable results, by lowering wages to such a point, that the incomes of the producers disable them from purchasing the work of their own hands. Thus it happens that the Russian and Polish peasant cannot buy wheat; the French peasant, wine; the Irish peasant, beef or pork; the British peasant, cloth or calico; hence a market must be found for those commodities in a foreign land.

Intimately connected with the subject of foreign trade is the theory of the Foreign Exchanges, on which so many erroneous opinions prevail.* The sense in which we ought to understand a favourable or an unfavourable exchange, must obviously vary as we use metallic or symbolic money. Let us then assume that we have metallic money and that the exchange is, in the language of the bullionists, favourable, and inquire how far such a favourable exchange is advantageous or hurtful to productive industry. A single illustration will make this important point quite clear.

Take a given quantity of wheat, and let its intrinsic value be worth one ounce of gold or £4 in our metallic currency: let the wheat, through our taxation, rise to £6 in our metallic currency; in these circumstances, the foreigner imports wheat, which he sells for six gold pounds, because, though it is intrinsically worth only four gold pounds, he has the advantage of selling at our taxation-price. He then considers what he shall take back to his own country as a return cargo. He finds, upon inquiry, that as taxation raised wheat from four gold pounds to six gold pounds, so, in like proportion it has raised the price of all other commodities fifty per cent. Why, then, should he buy our iron, for example, at £12 per ton, when he can buy an equally good article in Sweden for £8? Why should he purchase our cottons or calicoes, if he can purchase similar goods far cheaper in Prussia or Saxony? He clearly will not. He is content to *sell* at our high prices; but he is too wary to *buy*

* The reader is referred to Tract II., in which the doctrine of the foreign exchanges is investigated.

at our high prices; so he leaves our dear goods in our warehouses, and takes away our cheap gold. He gets an ounce and a half of gold for his wheat which is only worth intrinsically one ounce of gold, for the other half ounce is due to taxation, which adds to the cost of production, but adds nothing to the value of the product. This is the process. He has six of our Bank of England notes; he presents four for conversion into the yellow metal, and receives for them an ounce of gold; but he has two more notes remaining: he presents them and gets another half ounce of gold. Thus he gives us £4, estimated in wheat, and takes from us £6, estimated in gold; so that by the operation we lose fifty per cent. Nor is this the full measure of our loss. Under these disastrous circumstances, a drain of gold takes place for exportation, accompanied with hoarding at home caused by panic. Then ensues that mercantile prostration which has been fully explained in Tract V. From this explanation it is difficult to understand how a favourable rate of exchange can be advantageous to productive industry.*

We have now to consider an unfavourable rate of exchange, in conjunction with symbolic money; and the subject may be illustrated as in the preceding case. The price of wheat rises from four paper pounds to six paper pounds, through taxation. The foreigner sells his wheat, intrinsically worth one ounce of gold, for six paper pounds; if now he chooses to convert them into gold, he must buy the gold at its *market* price, and no longer at its fixed price; the tax being fifty per cent. on the wheat, will also be fifty per cent. on the gold, which has ceased to be legal tender, and has returned to its natural character as a commodity; but the paper expresses taxation, so that each note, nominally worth twenty shillings, has been *excised* fifty per cent., and therefore has fallen in purchasing power to thirteen shillings and four pence. Six of such notes, therefore, will not purchase an ounce and a half of gold, but only one ounce of gold; the foreign wheat, however, by the hypothesis, was only intrinsically worth one ounce of gold, and to that, but

* The reader is referred to Tract IV. for evidence, that during the panic of 1847, the foreign exchanges were favourable to this country, although the London bankers could have stopped the Bank of England.

to no more, the foreigner was entitled; he receives it and is not wronged; neither are we wronged; we no longer give six for four, but only four for four; and thus, by paper money expressing taxation, our foreign trade resolves itself into a fair exchange of equivalents.

But we are protected from still further evils. The foreigner has no longer an inducement to take away our gold, for he cannot invest it more advantageously in a foreign market than in our own; he has no longer one ounce and a-half, but only one ounce; he has every motive to buy our goods, instead of leaving them in our warehouses; thus practically realising what we have already quoted from Xenophon—"Hence merchants are obliged to barter their wares for other wares." Under such circumstances, gold would neither be exported as the cheapest merchandise, nor hoarded by the timid as nest-eggs. Manufacturing industry would not be arrested; operatives would not be dismissed; merchants would not be beggared; usurers would not reap a golden harvest.

Mr. John Taylor, in his unanswered and unanswerable letter,* addressed to Sir Robert Peel, has some pithy and excellent remarks on the foreign exchanges,—one of those soap-bubbles which the Right Hon. Baronet displayed before the House of Commons when he introduced the Act of 1844.

"It is made a matter of great complaint with you that the *exchanges* had become unfavourable to us, which was, of course, the fault of the Restriction Act. In general, sir, when I hear any one speak in this manner of the exchanges, I am pretty sure he is unacquainted with the operations of which he is talking. But when you add, that '*men of sagacity*' observed, in 1810, that they had for a long time been unfavourable, it is difficult to refrain smiling at the mock-profoundness and humorous gravity of the remark. What should you think of a stock-broker, whose business it was to watch the funds, if he, after the lapse of thirteen years, wherein there had been a gradual rise, began to perceive at last that prices had been for a considerable time advancing? Would you call him a man of *sagacity?* And, with regard to the supposed calamity of an advance in the exchanges, should you think it a *calamity*, if, when the prices of goods have been for a

* *What is a Pound?* By John Taylor, Author of *Junius Identified.*

number of years advancing among ourselves by the necessary addition of taxation, the rise in the exchanges should prevent the foreigner from realising those same high prices in bullion, and thus preclude him from taking out of the country a greater quantity of the precious metals than he ought to have? Yet this, Sir, is the effect of what is called by the merchants an *unfavourable state of the exchanges.* These matters ought to be so well understood by a minister of this great commercial nation, that he should be in no danger of making such mistakes in speaking of them.

"Let us now see why the exchanges had become unfavourable. Those taxes which, for the seven years from 1798 to 1804, were thirty millions a-year, were, for the seven years from 1805 to 1811, forty-seven millions a year, exclusive, in both cases, of property tax. This increase naturally caused an increase in the prices of all goods, which were raised not less on the average than 17 per cent. in consequence. The rise of the prices of goods, being expressed in paper money and not in gold, rendered it necessary that bills drawn from abroad on England, and payable in bank-notes, should be drawn for this *increased sum*, that in return the foreign creditor might receive *that sum in gold* which he had in his own mind bargained for. Do you see anything wrong in all this, taking the three operations into account as parts of the same system? 1, the taxation; 2, the rise of prices in paper money; 3, the difference in the exchanges restoring prices to their former gold level, and giving the foreigner no advantage in dealing with us on account of any rise of prices among ourselves? There can be nothing to object to, but everything to approve of. Yet this, sir, is all that is really meant by your observation — that the exchanges had been for a long time unfavourable to this country."

From these explanations it must be evident, that what the bullionists term an unfavourable exchange — considered so in reference to metallic money bearing a fixed mint price—becomes a positive advantage to native industry when representative paper money is used. If, through taxation, our prices rose from forty pounds to sixty pounds, the foreigner would estimate the goods he

consigned to our market at sixty pounds, and thus obtain their metallic value. He, therefore, would not be deterred from trading with this country, since he would still have the option that he now has, of taking our goods or our gold in payment of what he imported.

But it may be asked, how would it fare with our manufacturers, in effecting sales of their commodities in foreign states? If all prices rose among ourselves fifty per cent., would not the cost of production, thus heavily increased, exclude them from competition with the rest of the world? This is a very frequent objection; but it has no real force when fully examined. Prices would rise among ourselves, not in *metallic* money, but in *paper* money. Say forty pounds in gold money to be two hundred dwts. of that metal; then, if the tax were fifty per cent., sixty pounds of paper money would only buy two hundred dwts. of gold. This being premised, we shall more readily perceive how our manufacturers would be affected in their foreign trade.

Let it be assumed that a British manufacturer produces in a year, or in any other given period, commodities worth 100,000*l.* in paper money, of which he intends to dispose of 40,000*l.* in the home market, and 60,000*l.* in the foreign market. He will, of course, receive 40,000*l.* in paper money for the goods he sells at home; but, taking British taxation at fifty per cent., as in preceding illustrations, the 60,000*l.* worth of goods sold in the foreign market would only realise 40,000*l.* in gold. Here, then, he is an apparent loser, but not so in reality; he brings this gold to England as merchandise, and sells it to the Bank of England for 60,000*l.* of national paper money,—since gold, estimated in that paper, would bear a premium of fifty per cent. He thus obtains all that he is entitled to receive. In truth, his general condition as a producer is greatly improved, compared with his condition under the existing monetary system. Now, he is compelled to sell at barter prices, *both* in the home and foreign markets; but, with paper money, what he sold at home would realise taxation-prices. As a seller, therefore, he would get more money at home than he now gets, and he would still receive abroad the same amount of money that he now receives for his foreign sales; and, whether

he took gold or goods in payment for such sales, they would realise him taxation-prices when imported into this country.

The foreign merchant, also, who brought gold into Britain, would obtain a premium for it in our national money, and would have no reason to complain of our high prices, which would not be relatively higher than his gold; and the foreigner who came for pleasure instead of trade, would be exactly in the same position.

The facts and arguments contained in this tract seem to justify the following conclusions:—

1. That every country, having an expansive instrument of exchange, can always create within itself a market for the whole of its productions; whence it follows, in the language of Mr. Mill, that "foreign commerce is, in all cases, a matter of expediency rather than of necessity."

2. That such commodities as our soil and climate cannot produce, ought to be admitted free of duty, as this would create an increased demand for British labour to be employed on the production of native commodities, which would be taken in exchange by the foreigner. On the other hand, such commodities as our soil and climate can produce in sufficient quantities, ought to be excluded, as their introduction would displace British labour.

2. That every independent STATE ought to possess a national currency—having value at home, but no value abroad; and that the balances of foreign trade should be discharged in gold at its market price.

4. That the old THEORY of the BALANCE of TRADE is fallacious, because it is based on the false assumption that gold and silver are alone wealth, to the exclusion of all other commodities; and because it is contradicted by experience, since, if it were true, Great Britain ought to be in possession of a far larger quantity of gold than is presumed to circulate throughout the whole globe.

5. That the excess of exports over imports, so far from being a sign of mercantile prosperity, is evidence of losing commerce, since all trade resolves itself into an exchange of equivalents; therefore, if a nation gives away more than it receives, the process has only to be continued long enough to ensure its bankruptcy.

6. That, with national paper money, what is termed "an unfavourable state of the exchanges" would prove the most effectual protection of British industry, relieving us from all risk of monetary panics, through the export or hoarding of gold, and averting those checks to industry and suspensions of labour which have visited us periodically since the resumption of cash payments.

FRANCIS BENNOCH, *President.*
JONATHAN DUNCAN, *Secretary.*

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